

Message Text

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ACTION AF-18

INFO OCT-01 ISO-00 XMB-07 EB-11 TRSE-00 L-03 CIAE-00

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FM AMEMBASSY NOUAKCHOTT

TO SECSTATE WASHDC 2726

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PASS EXIM BANK

E.O. 11652: N/A

TAGS: ETRD, EFIN, BPRO, MR

SUBJ: LANG ENGINEERING SUGAR REFINERY

REF: NOUAKCHOTT 214, 923 AND 1061 (NOTAL)

1. SUMMARY: J. F. PRITCHARD EXECUTIVE VICE PRESIDENT
ED OLIPHANT, ACCOMPANIED BY PRITCHARD LAWYER AND ENGINEER,
VISITED NOUAKCHOTT LAST WEEK FOR THREE DAYS CONSULTATIONS WITH
MININDUSTRIAL DEVELOPMENT OFFICIALS ON CONSTRUCTION TIMETABLE,
FINANCING AND PRICE INCREASES NOUAKCHOTT SUGAR REFINERY. OLIPHANT
TOLD MINISTRY OFFICIALS PRITCHARD (WHICH HAS CONSTRUCTION SUB-
CONTRACT FROM SISTER ICS COMPANY LANG ENGINEERING) PREPARED
BEGIN GROUND CLEARING/CONSTRUCTION IMMEDIATELY PROVIDING GIRM
GIVES SATISFACTORY ASSURANCES IT WILL PAY SOME FIVE MILLION
DOLLARS IN ESTIMATED COSTS OVERRUNS. MININDUSTRIAL DEVELOPMENT
SIDI STATED HE UNABLE GIVE IRON-CLAD ASSURANCES UNTIL AFTER
CONSTRUCTION--ALREADY BEHIND SCHEDULE--IS UNDERWAY. OLIPHANT
INVITED SIDI AND DIRINDUSTRIALIZATION BABA TO VISIT U.S. FOR
FURTHER DISCUSSIONS, AND BOTH HAVE ACCEPTED FOR FIRST WEEK
OCTOBER. EXPECT SIDI AND CENTRAL BANK GOVERNOR AHMED OULD DADDAH
--WHO WILL BOTH ATTEND IMF/IBRD MEETINGS WASHINGTON--WILL WISH
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CONSULT WITH EXIMBANK AND BANKERS TRUST IN ORDER IRON-OUT

LETTER OF CREDIT AND OTHER FINANCIAL MATTERS PENDING FOR SEVERAL MONTHS.

2. ACTION REQUESTED: AF/W CONSULT WITH EXIMBANK MAURITANIAN EMBASSY AND GIRM ATTORNEY MIDDLETON RE ASSISTANCE DEPARTMENT MAY BE ABLE OFFER IN SCHEDULING SIDI, OULD DADDAH AND BABA FOR INTERVIEWS WITH EXIMBANK AND BANKERS TRUST. GOAL OF SUCH INTERVIEWS WOULD BE TO IRON OUT MISUNDERSTANDINGS WHICH SEEM TO HAVE CROPPED UP CONCERNING LETTER OF CREDIT, CERTIFICATIONS FOR LEGAL FEES, EVIDENCE OF AUTHORITY GIRM MINISTERS EXECUTE NOTES AND OTHER PENDING MATTERS PERTAINING TO EXIM/BANKERS TRUST LOAN DISBURSEMENTS.

3. AS PROMISED DURING LAST PREVIOUS MEETINGS (JULY 31 AND AUGUST 1), PRITCHARD REPS RETURNED NOUAKCHOTT PRESENT DETAILED MINUTES PREVIOUS MEETINGS AND TELL GIRM THAT ISC HAD GIVEN PROVISIONAL GO-AHEAD START SUGAR REFINERY CONSTRUCTION. AS PRITCHARD VEEP OLIPHANT EXPLAINED IT, ISC WOULD BEGIN IMMEDIATELY TO CLEAR GROUND AT PROJECT SITE NEAR NOUAKCHOTT WHARF WITH NOVEMBER TARGET DATE FOR PUBLIC AND WELL PUBLICIZED GROUND-BREAKING CEREMONY. THEREAFTER, PRITCHARD WOULD CONTINUE WITH FINAL DESIGN, EQUIPMENT PURCHASES AND CONSTRUCTION AS CASH UNDER LETTER OF CREDIT BECOMES AVAILABLE. WHEN CASH BEGINS RUN OUT, PRITCHARD WOULD APPROACH GIRM FOR FINANCING COVER COST OVERRUNS. IN NO CASE WOULD PRITCHARD OPERATE UNDER NEGATIVE CASH FLOW CONDITIONS. WHEN MONEY RUNS OUT, CONSTRUCTION WILL STOP UNTIL MORE FINANCING BECOMES AVAILABLE.

4. MININDUSTRIAL DEVELOPMENT OFFICIALS (SPEAKING FOR MINISTER, WHO UNAVAILABLE MEET WITH OLIPHANT BECAUSE OF MARATHON CABINET/ PARTY MEETINGS) ACCEPTED PRITCHARD PROPOSAL IN PRINCIPAL, BUT AGAIN DECLINED TO GIVE IRON-CLAD GUARANTEES ON PAYMENTS COST OVERRUNS. MINISTRY SPOKESMAN EXPLAINED THAT SIDI, ALREADY FAR OUT ON A LIMB AND IN NO POSITION GO BEFORE CABINET NOW WITH DEMAND FOR MORE FINANCING. ONLY ONCE CONSTRUCTION AND EQUIPMENT PURCHASES UNDERWAY FOR ALL TO SEE WOULD SIDI HAVE NECESSARY LEVERAGE OBTAIN CABINET APPROVAL FOR INCREASED PAYMENTS COVER INCREASED COSTS. MINISTRY SPOKESMEN INDICATED GIRM WOULD ITSELF FINANCE ADDED COSTS, PRESUMABLY FROM ARAB OIL STATE LOANS AND GRANTS NOW BECOMING AVAILABLE.

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5. OLIPHANT AND COMPANY ALSO BRIEFED GIRM ON PROBLEMS AND APPARENT MISUNDERSTANDINGS THAT HAVE CROPPED UP CONCERNING PROJECT LETTER OF CREDIT ISSUED BY MAURITANIAN CENTRAL BANK, AS WELL AS CERTIFICATION OF LEGAL FEES AND FILING OF OTHER DOCUMENTS REQUIRED UNDER EXIM LOAN AGREEMENT. OLIPHANT SUGGESTED MINISTER SIDI VISIT US IN NEAR FUTURE FOR CONSULTATIONS WITH EXIM AND WITH ISC MANAGEMENT IN HOUSTON IN ORDER IRON OUT LETTER

OF CREDIT AND OTHER FINANCIAL PAPERWORK ALL OF WHICH CRITICAL TO EQUIPMENT PURCHASES/CONSTRUCTION START. SIDI AGREED AND WILL TAKE UP SUGAR REFINERY ISSUES WITH EXIM AND ISC IN EARLY OCTOBER FOLLOWING END IMF/IBRD MEETINGS TO WHICH HE IS GIRM DELEGATE. AT SAME TIME, DIRINDUSTRIES BABA WILL VISIT KANSAS CITY IN COMPANY WITH GIRM ENGINEERING CONSULTANTS (SSEC) IRON OUT TECHNICAL CONSTRUCTION ASPECTS.

6. ANOTHER PROBLEM NOT SETTLED DURING OLIPHANT'S NOUAKCHOTT VISIT IS INEVITABLE SLIPPAGE IN REFINERY COMPLETION DATE, WHICH UNDER PRESENT CONTRACT SCHEDULED FOR MARCH 1976. PRITCHARD APPARENTLY CONVINCED THAT IF SIDI WILL ACCEPT PAY COST OVERRUNS, HE WILL ALSO AGREE EXTEND PROJECT COMPLETION DEADLINE WITHOUT PENALTY TO PRITCHARD/LANG.

7. COMMENT: AS PREVIOUSLY REPORTED, BOTH GIRM AND PRITCHARD ARE TAKING A GREAT DEAL ON FAITH. MUCH STILL REMAINS TO BE DONE BEFORE CONSTRUCTION SUGAR REFINERY--FOR WHICH CONTRACT SIGNED IN MAY 1973--BECOMES A REALITY. PRITCHARD'S OLIPHANT PARTICULARLY CONCERNED ABOUT FACT THAT GIRM CAN GIVE HIM NO FIRM WRITTEN GUARANTEE COVER COST OVERRUNS THAT ARE CERTAIN TO RESULT FROM HIGHER PRICES ON ALL GOODS AND SERVICES FOR REFINERY. PRITCHARD SEEMS WILLING, HOWEVER, ACCEPT SIDI'S WORD HE WILL MAKE GOOD ON EXCESS COST AS BILLS PRESENTED, BUT FEARS ISC MAY BALK. IT IS FOR THIS REASON THAT OLIPHANT PARTICULARLY ANXIOUS GET SIDI TO HOUSTON, WHERE HE CAN MEET FACE-TO-FACE WITH ISC MANAGEMENT. OLIPHANT BELIEVES THAT MINISTER WILL CARRY THE BALL FROM THERE AND CONVINCE ISC THAT GIRM GOOD WILL IS BANKABLE. PRITCHARD WILL MAKE NO FURTHER MOVES TOWARD CONSTRUCTION START OR EQUIPMENT PURCHASES UNTIL AFTER HOUSTON MEETINGS AND ONLY THEN FOLLOWING FORMAL GIRM APPROVAL ENGINEERING SPECS, WHICH STILL OUTSTANDING.

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8. FINALLY, FROM OUR PERSPECTIVE, IT SEEMS CLEAR THAT BOTH SIDES IN THE SUGAR REFINERY CONTRACT HAVE EACH OVER A BARREL, AND BOTH SIDES KNOW IT. FOR HIS PART, SIDI CANNOT POLITICALLY AFFORD TO LET THE REFINERY CONTRACT GO BY THE BOARD. HE HAS GOTTEN SOME HEAVY FLACK FROM CABINET COLLEAGUES FOR GETTING INVOLVED IN THE CONTRACT IN THE FIRST PLACE AND IS UNWILLING ADMIT DEFEAT AT THIS LATE DATE. PRITCHARD/LANG--THOUGH LANG HAS ONLY RESIDUAL INTEREST IN THE PROJECT--ARE EQUALLY UNWILLING TO BACK OUT EXCEPT IN EXTREMIS: VIZ., A NEGATIVE CASH FLOW POSITION. TO DO SO, PRITCHARD THINKS, WOULD CAUSE IRREPARABLE DAMAGE TO ISC'S IMAGE AND FUTURE BUSINESS PROSPECTS IN AFRICA, NOT TO MENTION ITS CREDIT STATUS VIS-A-VIS EXIM AND OTHER U.S. FINANCIAL INSTITUTIONS. THE ABOVE BEING THE CASE, BOTH SIDES ARE NOW SEEMINGLY MORE THAN EVERY TRYING TO COME TO TERMS; LITERALLY TO FIT OUT A TWO-SEATER BARREL, COMFORTABLY UPHOLSTERED,

AND PERHAPS EVEN WHEELED, THAT WILL CARRY THE PROJECT FORWARD
WITH MINIMUM HARDSHIP FOR EITHER PARTY. AMEN.
SHURTLEFF

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